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SUBJECT: CSIRO'S PERSPECTIVE ON WIRELESS PATENT LEGAL
STRUGGLE

Classified By: ECON COUNSELOR E KAGAN, REASONS 1.4 B AND D

¶1. (C) Summary: The Commonwealth Scientific and Industrial Research Organisation's (CSIRO) ongoing defense in U.S. courts of its wireless patent against alleged infringers is unusual but not unprecedented. CSIRO is open to negotiating a settlement of its case. The \$4/unit royalty that CSIRO has proposed is an opening figure that CSIRO does not expect to get in the end. CSIRO holds hundreds of royalty-bearing patents dating back to 1954. Although a part of the government, which provides most of its funding, CSIRO is officially independent of any Australian ministry and rarely receives direct orders. End summary.

¶2. (SBU) The proceedings in U.S. courts involving the defense of a patent related to 802.11 wireless local area network technology by the Commonwealth Scientific and Industrial Research Organisation (CSIRO) has attracted some media coverage in Australia. On December 4, econoff met with Nigel Poole, Executive Director for Business Services at CSIRO, and Jack Steele, Chief of Staff, Business Services to get CSIRO's background and perspective on this case.

BACKGROUND ON CSIRO AND PATENTS

¶3. (U) CSIRO is an independent scientific research entity, government-owned and commissioned but not part of any other Australian governmental body. About 60% of its annual A\$1.1 billion (US\$960 million) budget comes from the GOA; the other 40% is derived from fees for conducting studies (usually on the GOA's behest), royalties from licenses for CSIRO patents, and other sources. As Poole explained, CSIRO has a mandate to "deliver outcomes" - applied research with an eye to the market. CSIRO's work tends to have commercial applications or to meet community concern (e.g., its studies of environmental issues, fisheries, etc).

¶4. (U) CSIRO is not new to the licensing technology game - its first license was in 1954 for an atomic instrumentation device it developed and patented, at a 5% gross royalty. CSIRO files about 100 patent applications a year, making it the biggest public-sector patent generator in Australia, and currently has about 700 royalty-bearing licenses. Poole said CSIRO commercializes its patents for two reasons - to ensure that technology it develops is adopted, and to generate income as a way to show stakeholders that CSIRO is achieving returns on the Australian taxpayers' investment.

¶5. (SBU) Once a decade or so CSIRO patents a "blockbuster." One example is the polymer banknote, used in Australia, Rumania, and other countries, invented in the 1970s and still licensed and used today. A procedure for smelting copper is used in 37 global copper companies, smelting 7.5 million tons of copper worth billions every year. CSIRO royalties bring in per annum anywhere from tens of thousands of dollars to multi-million dollars each. Five or six are multimillion

dollar earners (per year). Often licensees of various products cooperated with CSIRO during development. The transfer of technology from CSIRO is usually voluntary, and typically a company negotiates a commercial deal before commercializing the product. The current WLAN case is unusual, according to our CSIRO contacts.

CSIRO,S HISTORY OF WIRELESS PATENTS ISSUE

¶6. (SBU) From a CSIRO briefing document: "CSIRO in the early 1990s developed a system to exchange large amounts of information wirelessly at high speeds within environments such as offices and homes (a Wireless Local Area Network or WLAN)." CSIRO was granted a U.S. patent for this invention in 1996, and also holds patents for it in Japan and Europe. The patent is needed for certain 802.11 WLAN standards, and per CSIRO, almost all notebook computers and other consumer devices comply with these standards.

¶7. (SBU) CSIRO tried to license this product. In 2003 and 2004, it became aware of products that it believed infringed on its patent, and sent letters to 28 companies asking them to please discuss terms for a license from CSIRO. The companies did not accept CSIRO's offer.

¶8. (C) Poole explained that CSIRO then began to discuss a possible test case. Although not legally obliged to, they consulted widely with the Australian cabinet, including the Minister for Science, the Attorney General, the Minister for Communications and Information Technology, and also with the appropriate counterparts in the then-opposition Australian Labor Party. At that time, CSIRO also rejected the option of filing the case under the "Government of Australia" name, deciding that would be too provocative, and filed the suit as CSIRO.

¶9. (C) Note: CSIRO had also considered filing a case with the International Trade Commission which if successful could have stopped the importation of devices with disputed technology, but Poole said they decided that was too drastic a step. End Note.

¶10. (C) Poole said that Buffalo, a Japanese-owned company, essentially "picked itself" for the test case because in their response to CSIRO they said they would never apply for a license and accused CSIRO of being "swindlers." Poole said CSIRO was convinced of the merits of their case, and so chose the Eastern District of Texas because it has the reputation of being the fastest jurisdiction (he said companies frequently try to string out such cases). The case was filed in February 2005, and shortly after five U.S. companies filed separate legal action against CSIRO in May to prevent it from seeking reasonable royalties. The action by the five companies was dismissed, and an attempt to move the case from Texas also failed.

¶11. (SBU) In November 2006, the presiding Judge found that Buffalo had infringed on CSIRO's patent, describing the situation (according to our CSIRO contacts) as an "open and shut case." In February 2007, CSIRO was granted an injunction against Buffalo, and Buffalo's attempt at a stay was dismissed by the Court of Appeals, which (per CSIRO) found "no merit" in Buffalo's case.

¶12. (C) Meanwhile CSIRO has filed suit against a total of 14 companies for infringing its patent. There has been a case management conference, where per CSIRO the judge advised the defendants to mediate because the patent is valid, and it is now just a question of royalties and damages. CSIRO and the defendants participated in a court-ordered mediation session in mid-November in San Francisco, which was unsuccessful; one company offered a \$10 million settlement, which Poole says is less than cost of CSIRO's legal fees.

A LOT AT STAKE FOR CSIRO

¶13. (SBU) Poole and Steel said such cases in American courts are unusual for CSIRO but not unknown. For example, CSIRO is with CIBA Vision (a U.S. firm) defending a patent related to an oxygen-permeable contact lens CSIRO and CIBA developed. Before launching the WLAN case, they hired American patent valuation specialists to determine what would be a reasonable royalty. They were told that roughly 5% or \$4/unit was reasonable based on wireless patents, the utility of the invention, etc.

¶14. (C) CSIRO says that the 14 defendants have sold 200 million devices with 802.11 technology that relies on their patented technology, and that over the remaining life of the patent will sell another 600 million. They also note that Cisco recognized the value of this technology and in 1999 bought a CSIRO-established company that was established to exploit this technology for A\$300 million. Per Poole, the 14 companies are "paranoid" that Cisco is working with CSIRO on this case, but they aren't involved.

¶15. (C) Poole said CSIRO will not just roll over and give up on this - and he says they can't afford to. They need to demonstrate to potential licensees and partners that CSIRO will be strong in defending patents as a way to maintain the value of all patents that CSIRO holds and licenses. They Qvalue of all patents that CSIRO holds and licenses. They said they do not ultimately expect to get \$4 per unit - that is the starting point in a negotiation, and CSIRO wants to negotiate and settle. Poole mused that perhaps some of the companies would want to settle before the Buffalo case goes to the Court of Appeal in May 2008.

OTHER FACTORS

¶16. (U) CSIRO is independent under a 1949 law, as amended in ¶2007. Because it is a government entity, the Minister for Science could order CSIRO to do something, but such instances are relatively rare. The last "ministerial direction" to CSIRO (i.e., a direct order) was in 2001.

¶17. (U) Steele noted that the difference in the size of the U.S. and Australian markets demands a different approach to licensing inventions derived from federal-government backed research entities. Most of the benefits of a CSIRO-sponsored invention will actually accrue in the United States (population 300 million) and elsewhere rather than in Australia (20 million), so licensing patents rather than making them freely available is a way of capturing some of the benefits back for the Australian taxpayer.

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